elk petroleum

ASX Announcement

12 February 2019

REFINANCING UPDATE

Elk Petroleum Limited (ASX Code: ELK) ("Elk" or the "Company") is pleased to announce that it has completed the first-stage of the refinancing of the Aneth Oil Field and CO_2 EOR Project acquisition funding arrangements put in place in November 2017. The Company is also providing an update on its plans for ongoing funding for the Grieve Project.

Highlights

- ELK executes first-stage of its comprehensive refinancing strategy;
- Aneth refinances its Series A and Series B preferred equity via US$54m in unsecured loan notes;
- Company is currently in market to raise a more traditional low-cost reserve-based debt facility;
- Lower debt servicing cost and Madden NPI improve FY2019 free cash flow by up to US$17m;
- Debt maturity to be increased to 2022;
- Aneth debt package anticipated to be finalised by the end of March 2019

Aneth Refinancing

As previously announced on the 14th of January 2019, the Company reached an agreement with AB Energy Opportunities Group ("AB EOG"), a unit of AllianceBernstein, on a comprehensive refinancing package. Under these arrangements, AB EOG has agreed with the Company to allow the exchange and cancellation of all its existing Series A and Series B preferred equity in exchange for US$53.9 million in unsecured term loan notes due May 2022. This exchange results in the cancellation of all the Series B preferred equity. This exchange offer is open and available for acceptance for all the remaining outstanding Series A preferred equity of approximately US$15 million.

The new unsecured notes will feature an interest rate of 15%, identical to existing preferred equity rates, and will allow for interest over the initial 12-month period to be capitalized. The exchange was executed on a par basis without the application of the preferred equity 20% redemption premium. The new term loan notes can be repaid at any time for a prepayment premium of 5% which is a substantial cost savings to the Company. As part of this overall exchange offer, the Company has also agreed to issue a package of warrants to enable the preferred equity holders accepting the exchange the opportunity to acquire common equity interest in the Company's US holding company in return for their current preferred equity holdings.

A summary of the financing arrangement is provided in the Financing Arrangement Summary attached to this release.

The exchange is the initial step toward streamlining Elk's capital structure in order to achieve a traditional low-cost conventional commercial bank reserve-based credit facility ("RBL") to refinance the current Aneth Secured Term Loan. The aim is to have a standard RBL in place and the Aneth Secured Term Loan repaid by no later than the end of March 2019 to create additional cost savings and improve profitability for the Company.

AB EOG is currently assisting the Company to secure this new low-cost RBL. The Company is evaluating proposals from several conventional reserve-based lenders interested in providing this refinancing. AB EOG has agreed in principal to convert the amount of Aneth Secured Term Loan, if any, held by AB EOG not repaid by the reserve-based loan facility into additional unsecured term loan notes and to forego for the next 12-months NPI distributions from the Madden Gas Field to improve free cash flow to the Company. This is also being complemented by the operational cost reduction savings program that the Company has already begun implementing as announced on the 14th of January 2019. AB EOG and the Company estimate that completing the full implementation of the refinancing plan outlined above and realizing some cash flow benefits from the elimination of the Madden NPI could provide up to US$17 million improvement in post-financing cash flow for FY2019.

AB EOG, as the Company's largest capital provider, has provided this refinancing package to assist the Company in resolving significant challenges in maintaining compliance with the terms of the existing Aneth Term Loan Facility in light of the continued call for capital support for the Grieve Project and the current high cost of debt financing associated with the Aneth Oil Field acquisition and operation.

AB EOG and the Company have worked closely to put in place the refinancing and restructuring package in light of the Aneth Term Loan Lenders advising the Company that they believed that the Company was no longer able to meet required minimum liquidity covenants and was not in compliance with loan limitations on the use of Aneth operating income to cover among other things the Company's general, administrative and other corporate costs of operating the Aneth Oil Field and in relating to distributions and payments previously made on the Series A and Series B preferred equity and that as a result of a failure to maintain adequate ring-fencing between Company cost centers that the Company had exceeded these limitations on utilizing Aneth operating income with respect to these and other Company costs. With the completion of the exchange offer, this has addressed these issues on a short-term basis with the Aneth Term Loan Lenders entering into an amendment to the Aneth Term Loan Agreement dealing with these identified compliance issues.

The Company's top priority is complete the remaining elements of its refinancing efforts including securing the RBL facility as well as providing on-going funding for the Grieve Project. It is anticipated that Elk will achieve a sustainable and more profitable capital structure with the completion of the exchange offer existing preferred equity and the full repayment of the Aneth Term Loan via the implementation of a standard low-cost RBL from a commercial bank. Elk has been advised on this corporate restructuring by EAS Advisors, LLC, brokerage and investment banking services offered by Odeon Capital Group LLC, Member of FINRA/SIPC/MSRB/NFA.

Grieve Reserves Update

The Company has engaged VSO Petroleum Consultants ("VSO") to prepare a full independent Reserves update for the project which will also support securing any additional debt financing for Grieve. This update will incorporate all production data and any additional interpretational data available from Denbury, as operator of the Grieve Project and from the Company. This reserves update is expected to be completed by the middle to end of March 2019. As soon as this reserves update is completed, the Company will provide an update to the market.

The Company would also note that the reserves update provided in the Grieve Project operational update provided on 24 December 2018 was not a full Reserves update and did not incorporate an assessment of Grieve production data beyond 30 June 2018. The Company would like to correct certain inaccurate statements in connection with VSO, that were included in that release. In this statement, the Company stated that VSO had "undertaken an update of Reserves for the Grieve Project" and as a result, VSO had "reconfirmed" the Grieve Project reserves that were reported on June 30, 2018. In fact, at Elk's request, VSO mechanically rolled forward the effective date of the 30 June 2018 report applying two separate pricing assumptions at the new effective date. VSO did not review any new data and was not asked to review any of its original work that would result in a "reconfirmation" of Reserves. This review was undertaken and was performed on this basis at the request of the Company's lenders.

For further information, please contact:

Brad Lingo
Managing Director/CEO
P: +61 2 9093 5400
E: ir@elkpet.com

ABOUT ELK PETROLEUM

Elk Petroleum Limited (ASX: ELK) is an oil and gas company specializing in Enhanced Oil Recovery (EOR), with assets located in one of the richest onshore oil regions of the USA, the Rocky Mountains. Elk's strategy is focused on applying proven EOR technologies to mature oil fields, which significantly de-risks the Company's strategy of finding and exploiting oil field reserves.

Unsecured Term Loan Summary

Facility:	Unsecured Term Loan
Amount:	US$66.3 million upon exchange of all Series A and Series B preferred equity. Facility amount may be increased by amount of Aneth Secured Term Loan exchanged by AB EOG upon repayment of that facility by new reserve-based loan facility.
Maturity:	The later of (1) May 2022 or (2) 6-months after maturity of new reserve-based loan facility used to repay the existing Aneth Secured Term Loan Facility.
Interest Rate:	15% per annum to be capitalized during first 12-month period
Prepayment:	Loan can be prepaid in whole or in part at any time subject to the payment of a 4% prepayment premium and 1% exit fee on the amount prepaid.
Security:	None – unsecured without any guarantees
Priority:	Structurally subordinated
Covenants:	Covenant light
Warrants:	Subject to reduction and/or cancellation as provided below, warrants exercisable into common equity of the Company's US-holding company will be issued as follows: • Series A - 5% exercisable 120-days following closing • Series B - 5% exercisable 240-days following closing • Series C – 7.5% exercisable 12-months following closing • Series D – 7.5% exercisable 18-months following closing • Series E – 7.5% exercisable 24-months following closing • Series F – 7.5% exercisable 30-months following closing • Series G – 7.5% exercisable 36-months following closing • Series H – 2.49% exercisable 48-months following closing

	In no event will the warrants result in more than an issuance of 49.9% common equity in the Company's US-holding company assuming no Unsecured Term Loan is repaid prior to maturity. Upon repayment of Unsecured Term Loan, warrants will be reduced by (1) 50% upon repayment of US$35 million of Unsecured Term Loan, (2) 66.6% upon repayment of US$60 million of Unsecured Term Loan and (3) ratably reduced for upon repayment of Unsecured Term Loan debt of greater than US$35 million and less than US$60 million. Any unexercised warrants will be cancelled upon repayment of the loan in full and amount of warrants will be ratably reduced upon any partial repayment of the loan.